

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Philippines Becomes Top Growth Market for U.S. Foods and Beverages

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Report Highlights:

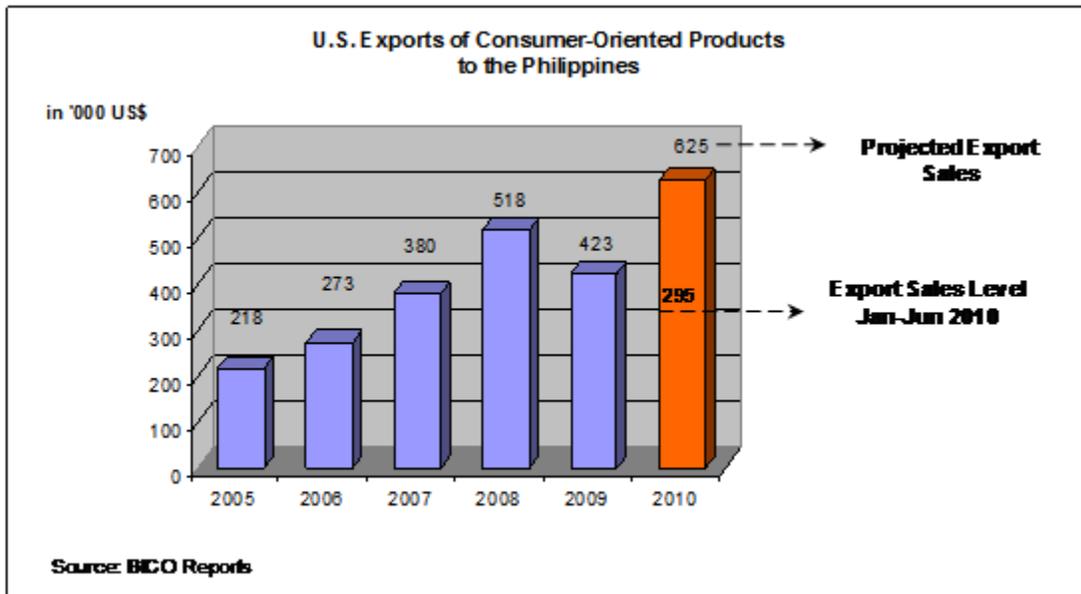
Spurred by a strengthening peso and the strongest economic growth in more than 20 years, the Philippines has become the second fastest growing and the 11th largest market for exports of U.S. food and beverage products. In the first half of 2010, exports increased by 80 percent over the previous year. With strong growth occurring in nearly all sub-categories, FAS Manila estimates U.S. food and beverage exports will reach a record US\$625 million by the end of 2010.

In 2009, Philippines ranked as the 14th largest export market in the world and the largest export market in Southeast Asia for U.S. food and beverage products with export sales reaching US\$ 423 million.

General Information:

Overview

U.S. food and beverage (f&b) exports to the Philippines increased by 80% in the first half of 2010, making it the second fastest growing market in this labor intensive, value added category. Most products that comprise the sector enjoyed strong growth, with exceptional sales increases for meat, poultry, dairy, snack foods, and processed fruits and vegetables (see charts on pages 9-11). Traders also report rapid sales of “healthy” foods, though U.S. Customs does not track these items as a separate subsector. Business optimism, the most rapid economic growth in over 20 years, and a strengthening peso leads FAS/Manila to predict that total U.S. f&b exports to the Philippines in 2010 are projected to reach a record of \$625 million, and to \$700 million in 2011.



This remarkable growth extends a general trend of impressive achievement that has carried through most of the decade. U.S. f&b sales increased from \$218 million in 2005 to a record \$518 million in 2008, but dropped by nearly \$100 million in 2009 due to the global economic crisis. Through the first half of 2010, the Philippines remained the largest U.S. export market in Southeast Asia, and became the 11th largest export market in the world for U.S. consumer-oriented products.

According to Philippine import statistics, the Philippines is a \$1.6 billion market for imported food and beverage products. In 2009, the U.S. and New Zealand each held a 15 percent share of the market. New Zealand exports mainly dairy products while the U.S. exports a wide variety of products and is the primary overall supplier of f&b products. The other top exporters and their respective market shares are: Thailand (9%), Australia (7%) and China (7%).

UDG: Consumer Oriented Agric. Total, Group 32 (2007)

Annual Series: 2004 - 2009							
Rank	Partner Country	United States Dollars					% Market Share (2009)
		2005	2006	2007	2008	2009	
	World	1,197,171,965	1,258,985,137	1,611,999,223	1,966,457,222	1,641,305,637	100.00%
1	New Zealand*	223,551,038	223,405,932	303,894,190	352,106,194	252,995,431	15.40%
2	United States	141,240,759	177,602,149	250,925,238	322,108,976	246,020,644	15.00%
3	Thailand	129,816,407	111,213,935	133,627,090	173,122,563	157,622,939	9.60%
4	Australia	120,591,810	118,775,966	118,394,670	146,596,638	129,581,669	7.90%
5	China	59,202,747	89,045,123	106,499,313	137,631,482	129,365,944	7.90%
6	India	75,116,826	79,290,746	91,535,685	146,875,562	91,715,947	5.60%
7	Ireland	60,172,983	47,655,648	94,201,038	118,288,474	71,851,321	4.40%
8	Malaysia	36,176,693	40,535,357	51,193,407	69,288,689	68,565,269	4.20%
9	Netherlands	35,198,349	33,639,573	56,137,271	57,984,808	61,318,083	3.70%
10	Indonesia	39,481,300	47,901,898	58,810,959	49,880,105	57,149,527	3.50%

Source: Global Trade Atlas

*Note: Seventy percent of New Zealand's exports were comprised of milk powder

The remarkable upward trend is spurred by a strengthening peso and the strongest mid-year economic growth in more than 20 years. The key factors that contributed to the growth are:

- Rapid growth in the industrial and services sectors, particularly the outsourcing of business processes (e.g., call center and medical/ legal transcription services)
- The rebounding export sector due to the upturn in global economy
- Increased consumer spending
- Increased money sent home by Filipinos working overseas
- General sense of optimism in the business sector

Macroeconomic Situation

In the first half of 2010, Philippine GDP grew by close to eight percent, the highest since 1988. Economic growth in the

Philippines averaged 4.5 percent per year since 2001 until the onset of the global economic crisis in late 2008. Philippine GDP grew by 1 percent in 2009, supported by resilient consumption stemming from, among other things, continued large remittances from Overseas Filipino Workers (OFWs) and a growing Business Process Outsourcing (BPO) industry.

Growth in Industrial and Services Sectors

According to the National Statistical Coordination Board (NSCB), the industrial sector grew by a record 15.9 percent, while the services sector grew by 6.4 percent.

A large contributor to the growth in the services sector was the bullish BPO industry that grew by 19 percent over the previous year and generated \$7.2 billion in 2009, equivalent to 4.5 percent of GDP. According to the Commission on Information and Communications Technology under the Office of the Philippine President, the BPO industry is expected to generate between \$11-13 billion in 2010. Last year, the local BPO industry employed another 70,000 people raising the total number of people employed to 442,000.

Remittances from Overseas Filipino Workers

The Philippine economy has the largest service sector in Southeast Asia and private consumption comprises 75 percent of the economy. Eleven million Filipinos currently working overseas, sent back a record \$17.3 billion in “remittances” from their wages to their families in 2009, accounting for over a tenth of GDP. The Central Bank of the Philippines projects a six percent growth this year. It is one of the country’s most important sources of foreign currency and fuels domestic consumption.

Why Traders are Bullish on F&B Imports

Importers cite overall economic growth, a weakening dollar, consumer preference for U.S. brands, optimism stemming from successful national elections, and anticipation of strong consumer spending in the last half of the year as the main drivers for their projected record purchases of U.S. f&b in 2010. Fueled by the longstanding and presidentially mandated “13th month” bonus paid to all workers, traders also point to growing demand for healthier and higher-end products as a key reason for unprecedented sales.

Philippine Market Sector Trends

Retail Sector

The vast improvements in Philippine food retailing over the past decade stem from the passage of the Retail Trade Liberalization Law in 2000. The legislation allowed foreign retailers to operate independently in the Philippines. In response to the threat posed by competition from foreign retail giants, local supermarket chains modernized their stores. The changes set the stage for more U.S. products to come in. Today, local retailers continue to keep abreast of global retail trends to stream-line their operations and broaden their line of imported brands. While direct importation is on the rise, distributors, wholesalers and agents still handle most imports for the retail grocery stores and supermarkets. Warehouse

space is limited even among many of the major retailers, requiring the services of an independent distributor or trader.

Exclusive distributorship agreements are preferred by Philippine importers however, exporters can work with one or several importers to cover different geographical areas and sectors (i.e., retail vs. foodservice). There is no prohibition on parallel imports and there are cases where importers have accessed “exclusive” products directly through the local US market.

There are an estimated 10 million consumers in Metro Manila and key provincial cities such as Cebu and Davao who have sufficient income to regularly purchase imported food items. There is a strong interest in American culture and trends due to the long history of close relations between the Philippines and the United States, bolstered by a large Filipino-American community in the U.S. that maintains ties with the Philippines. This results in a natural preference for U.S. products, which are highly regarded for their quality and variety. There is a growing demand for gourmet and healthier food and beverage products.

Food Service Sector

The rapidly expanding foodservice sector is also boosting demand for f&b products. Filipinos are known to eat about five times a day and have a propensity for snacking between meals. There is a growing demand for convenience which is evident in the continued growth of fast-food restaurants. Upscale restaurants and cafes in Manila and other cities present a wide range of sales opportunities for U.S. f&b products. Restaurants located in five-star hotels and upscale malls are important outlets along with popular western-style chains. All use imported ingredients, including meats, seafood, wine, dairy products, sauces, and fresh produce. While restaurant managers are price-sensitive when considering new ingredients, this is balanced with a need to present new menu items to attract consumers, and an expanding number of high-end dining options.

Top Ranking and Best Product Prospects

The top five U.S. food and beverage products in export value in 2009 were: red meats (\$83.4 million), dairy (\$76.5 million), snack foods (\$47.8 million), poultry (\$39.8 million) and processed fruits and vegetables (\$36.8 million).

The top five food and beverage products that showed the highest increase in sales during the first half of 2010 were: fresh vegetables (319%), poultry meat (210%), dairy products (176%), red meats (91%) and tree nuts (73%).

Petfood reached record level sales in 2009 with \$13.7 million and grew by 34 percent in the first half of 2010.

U.S. Exports of Agriculture, Fish & Forestry Products To *Philippines*
CY 2005 - 2009 And Year-To-Date Comparisons
(In Thousands Of Dollars)

	Calendar Years (Jan-Dec)					January-June Comparisons		Percentage Change
	2005	2006	2007	2008	2009	2009	2010	% Change
Consumer Oriented Total	218,248	273,321	380,510	518,837*	423,168	165,147	295,737	79.1
Snack Foods	34,714	35,629	41,306	50,464*	47,863	19,486	23,301	19.6
Breakfast Cereals	1,796	1,499	2,719	3,121*	2,223	1,059	1,527	44.2
Red Meats,	7,373	10,742	21,528	64,840	83,442*	34,170	65,475	91.6
Red Meats, Prep/ Pres	5,480	8,041	10,010	11,897	16,610*	7,333	9,986	36.2
Poultry Meat	11,267	14,298	19,978	19,841	39,860*	8,477	26,348	210.8
Dairy Products	63,498	95,631	151,984	210,226*	76,575	31,013	85,735	176.5
Eggs and Products	620	580	506	1,107	1,619*	488	447	-8.4
Fresh Fruit	13,492	16,159	18,179	23,154	32,787	4,642	6,202	33.6
Fresh Vegetables	640	346	1,301	2,070	1,565	546	2,290*	319.7
Processed Fruit & Vegetables	30,667	41,571	51,621	54,876*	36,867	18,447	30,373	64.7
Fruit and Vegetable Juices	5,476	6,223	14,152*	10,496	6,719	3,403	3,199	-6.0
Tree Nuts	1,884	2,787	2,910	3,723*	2,553	1,319	2,289	73.5
Wine and Beer	6,205	4,247	4,614	7,772*	7,423	3,639	3,786	4.1
Nursery Products	69	49	89	19	36	0	0	-
Pet Foods	10,193	8,462	10,651	13,487	13,743*	6,522	8,754	34.2
Other Consumer Oriented	24,874	27,056	28,964	41,745	53,283*	24,603	26,026	5.8

Source: BICO Reports

Legend: * - Highest Export Levels Since at Least CY 1970

 - Sales Projected to Reach Record Levels in 2010

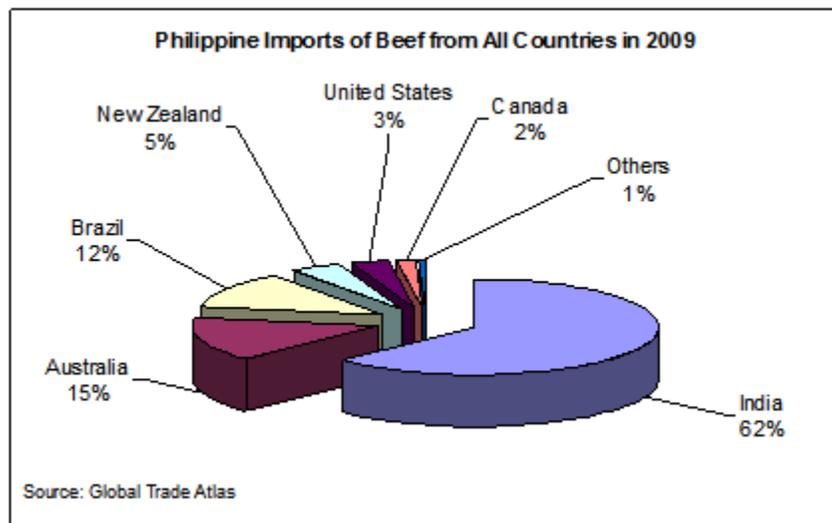
Fast Facts

- **Beef:** The Philippines was the first market in Asia to allow complete market access for U.S. beef and beef products of all ages. As a result, exports reached \$16.9 million in 2009. U.S. prime rib and other cuts are fast becoming a standard menu offering among restaurants in town.
- **Grapes:** The Philippines is the 7th largest market for grapes and has reported a 30 percent increase in importer's volume in 2008 and 2009 despite the economic downturn.

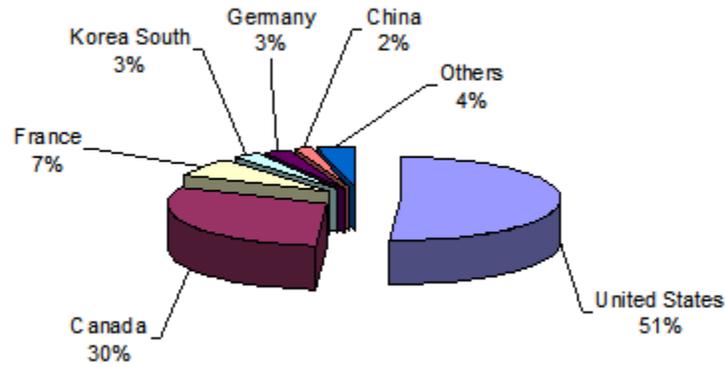
- **Potatoes:** With a booming food service industry in the Philippines, the U.S. frozen potato market has taken off. The Philippines is currently the 2nd largest frozen potato market in SE Asia, and 10th in the world. French-fries are an all-time Filipino favorite.
- **Poultry:** The increase in export volume is primarily due to a spill-over from last year’s additional allocation on the minimum access volume (MAV) amounting to 8,000 MT however, the export of mechanically deboned meat grew by 62 percent in the first half of 2010. _
- **Wine:** The U.S. wine industry broke records in 2009 with their highest export levels to the Philippines reaching \$8.2 million. If growth rates continue, the Philippines will surpass Singapore as the largest export market in the region.
- **Pet Food:** The Philippines ranked as the 11th top importer of U.S. pet food in the world and is the largest importer in Southeast Asia with export sales of \$12.5 million in 2009.

Best Product Prospects and U.S. Market Shares

The best prospects for U.S. food and beverage products are: beef, pork, dairy and cheese products, processed fruits and vegetables, fresh fruits and vegetables, wines and snack foods. Products that can be marketed as “healthy” or organic may also enjoy an advantage. Below are charts of the U.S. market share for each product vs. other countries exporting to the Philippines:

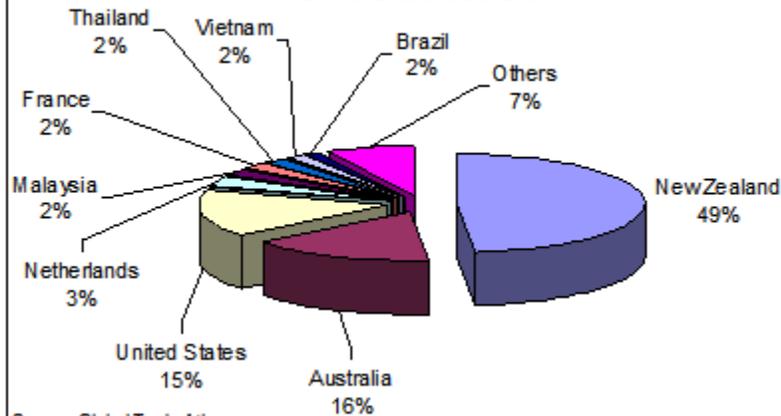


Philippines Imports of Pork from All Countries in 2009



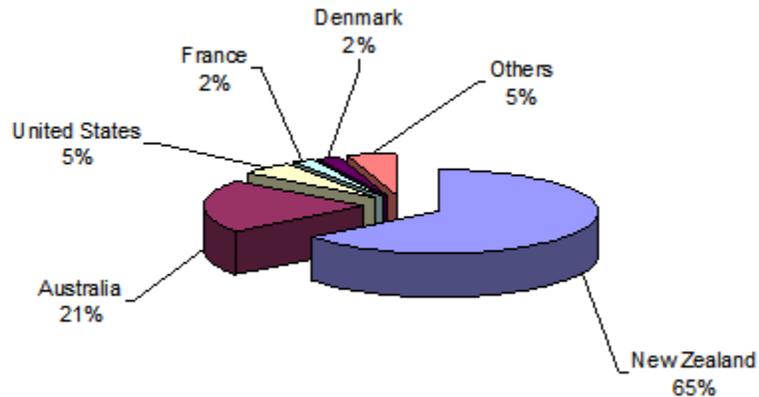
Source: Global Trade Atlas

Philippine Imports of Dairy Products (Excl. Cheese) from All Countries in 2009

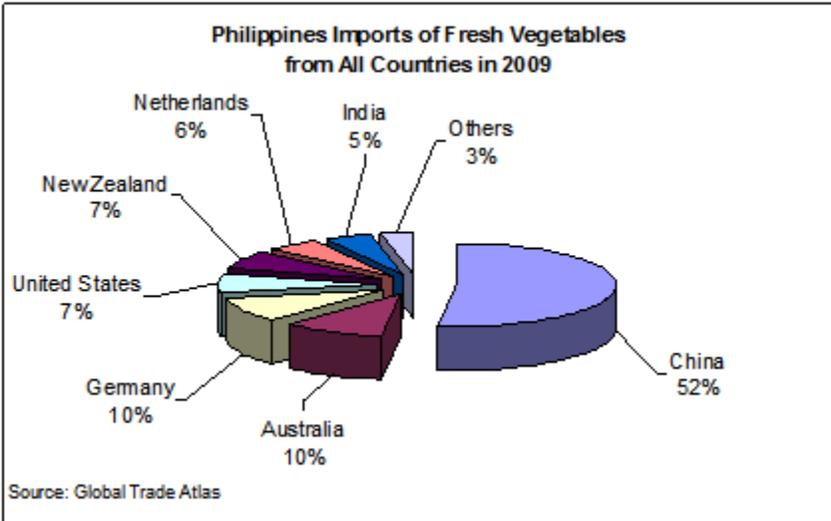
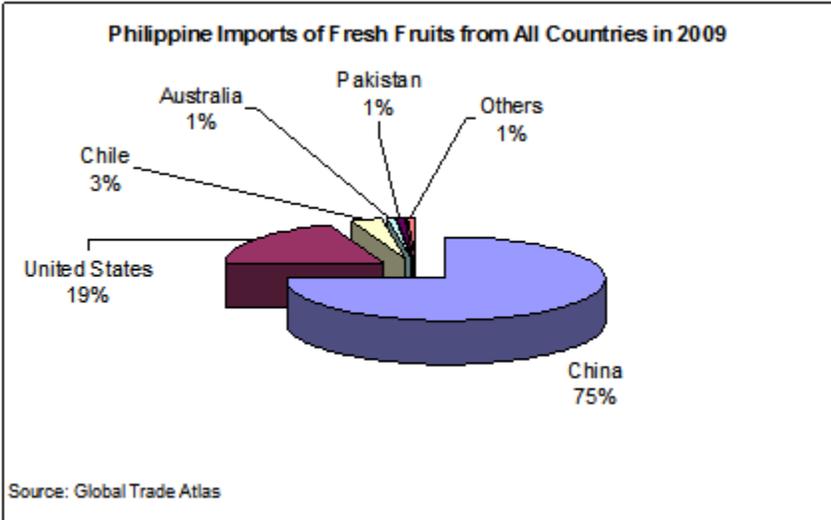


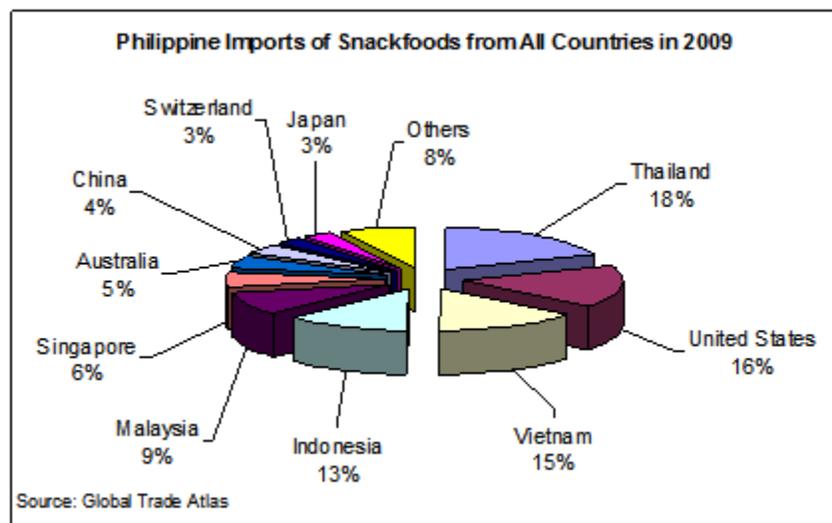
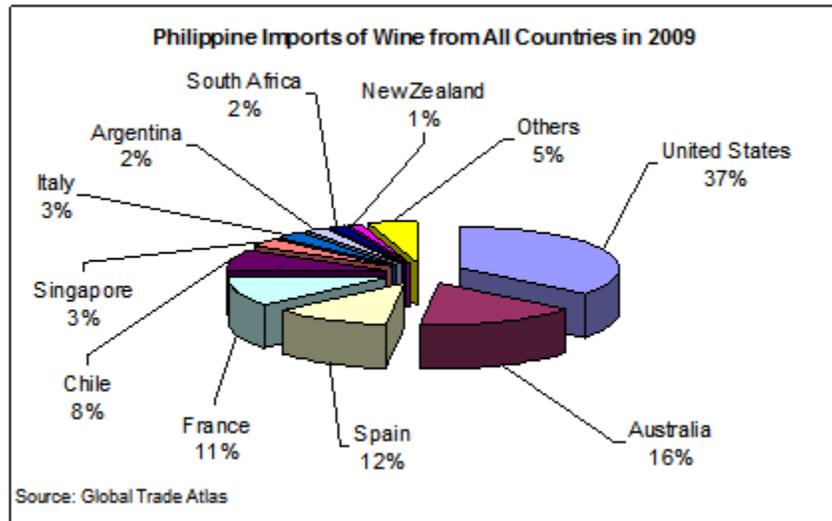
Source: Global Trade Atlas

Philippine Imports of Cheese from All Countries in 2009



Source: Global Trade Atlas





Key Contact and Further Information

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